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COLLEGE DEBTS OF RECENT GRADUATES

Cathy Henderson

December 1987

AMERICAN COUNCIL ON EDUCATION

Division of Policy Analysis and Research
One Dupont Circle
Washington, DC 20036-1193

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FOREWORD

As college costs continue to rise, there has been considerable concern about the college debt burden faced by recent graduates. Who is borrowing? Are college graduates able to repay their educational debts?

This report on college debts of recent graduates describes results of a survey of 1983-84 graduates of four-year institutions a year after graduation. Although three years have passed since these students graduated, this report is based on the most recent national data available, the "1985 Recent College Graduates Survey," conducted by the U.S. Department of Education.

Although the study shows that the college debts of the 1983-84 graduates were still moderate, it also offers disturbing evidence that the debt burden for students has been increasing.

- One-third of 1976-77 baccalaureate recipients had college debt; 43 percent of 1983-84 graduates had such debt.
- Of those who borrowed, the average college debt in 1983-84 was about $5,500, twice the average of 1976-1977 ($2,700).
- For graduates earning an average salary, repayment of college debts called for about 4 percent of their pre-tax earnings in 1985, up from 3 percent in 1978.

Henderson estimates that, for 1986-87 baccalaureate recipients, the average debt may be $7,500 with repayments requiring about 5 percent of pre-tax earnings. For 1990-91 graduates, average college debts may reach $11,360 with repayments requiring about 6 percent of pre-tax earnings. This would be about twice the average of 1983-84 graduates.

The higher education community must continue to address the trend of increasing debt burden of college students. Should graduates who earn average salaries be expected to apply 6 percent or more of their pre-tax earnings to repay educational loans?

This study provides valuable information about college debts of graduates of four-year institutions. It offers an incomplete picture of college debt, however, because it only covers borrowers who graduated, and therefore, have good prospects for employment and for repaying their loans. Not included in this study are borrowers likely to have less favorable earnings potential, especially students who enroll in college, but do not graduate; or those who completed one- or two-year degree/certificate programs.

We would like to thank the U.S. Department of Education, Center for Education Statistics staff for their assistance in preparing the tabulations, especially Samuel S. Peng and Marie van Melis-Wright. We also appreciate the comments and suggestions given by the ACE staff, CES staff, and others who reviewed an earlier draft of the report. Thanks also go to Andrew G. Malizio and Rosa Lott-Hawkins for their assistance in preparing the report.

Elaine El-Khawas
Vice President for
Policy Analysis and Research

December 1987

COLLEGE DEBTS OF RECENT GRADUATES

HIGHLIGHTS

- Over 410,000 1983-84 college graduates of four-year institutions completed college with education debts. This represents 43 percent of all graduates of four-year institutions.
- Of all 1983-84 graduates of four-year institutions, women were almost as likely as men to borrow (41 percent of women compared to 45 percent of men).
- The average college debt of 1984 graduates who had borrowed was $5,470. Average debts were $4,970 for graduates of four-year public institutions and $6,350 for graduates of four-year independent institutions.
- Of those who borrowed, the average college debt of 1984 graduates of four-year institutions was twice the average debt of 1977 graduates.
- Among 1984 graduates who borrowed, one in three owed less than $3,000; 34 percent owed $7,000 or more; 2 percent owed $15,000 or more.
- Black graduates, in general, owed less than white graduates. Of those who borrowed, the average debt among black graduates was $4,600, compared to $5,570 for white graduates. About 25 percent of black graduates, compared to 35 percent of white graduates, owed $7,000 or more.
- Of those who borrowed, about 29 percent of the recent graduates of four-year public institutions, compared to 45 percent of the graduates of four-year independent institutions, owed $7,000 or more.
- Graduates in engineering were more likely to borrow than graduates of other programs. Across major fields of study, however, there were no significant differences in the average size of the debts incurred.
- On average, graduates who were employed full-time in 1985 were paying about 4 percent of their pre-tax earnings on a college debt of $5,470. Similar graduates in 1978 were paying about 3 percent of their earnings on an average college debt of $2,700.
- About one-third of 1983-84 graduates who were employed full-time were paying 6 percent or more of their earnings toward their education loans.
- One in seven recent graduates in education and in the humanities who borrowed faced a loan burden of 10 percent or more of their pre-tax earnings.
- The average college debt for 1986-87 graduates of four-year institutions is estimated at $7,480.
- By 1992, recent graduates might expect to pay about 6 percent of their first-year pre-tax earnings on an average debt of $11,360.

COLLEGE DEBTS OF RECENT GRADUATES

Cathy Henderson

Introduction

Currently about half of the nation's undergraduates use some form of federal assistance in the form of grants, jobs, or loans to help finance postsecondary education expenses. In a recent study of loan programs, Janet Hansen found that by 1985-86, loans were almost half of the $20.7 billion in aid available to help finance students' education. Instead of the traditional mixture of grants, work-study jobs, and loans in a student's financial aid package, loans have become the dominant student aid vehicle to improve equal educational opportunity.

Who is borrowing? Does the pattern of borrowing vary by factors such as gender or race/ethnicity of the student or major field of study chosen? How large are the debts? Are college graduates able to repay these educational debts? To explore these questions, the results of a survey of recent college graduates conducted by the U.S. Department of Education's Center for Education Statistics were studied.

Special thanks go to Marie van Melis-Wright of the Center for Education Statistics for her assistance in this report.

Cathy Henderson, formerly a research associate at ACE, is a higher education consultant in Washington, D.C.

Recent College Graduates Surveys

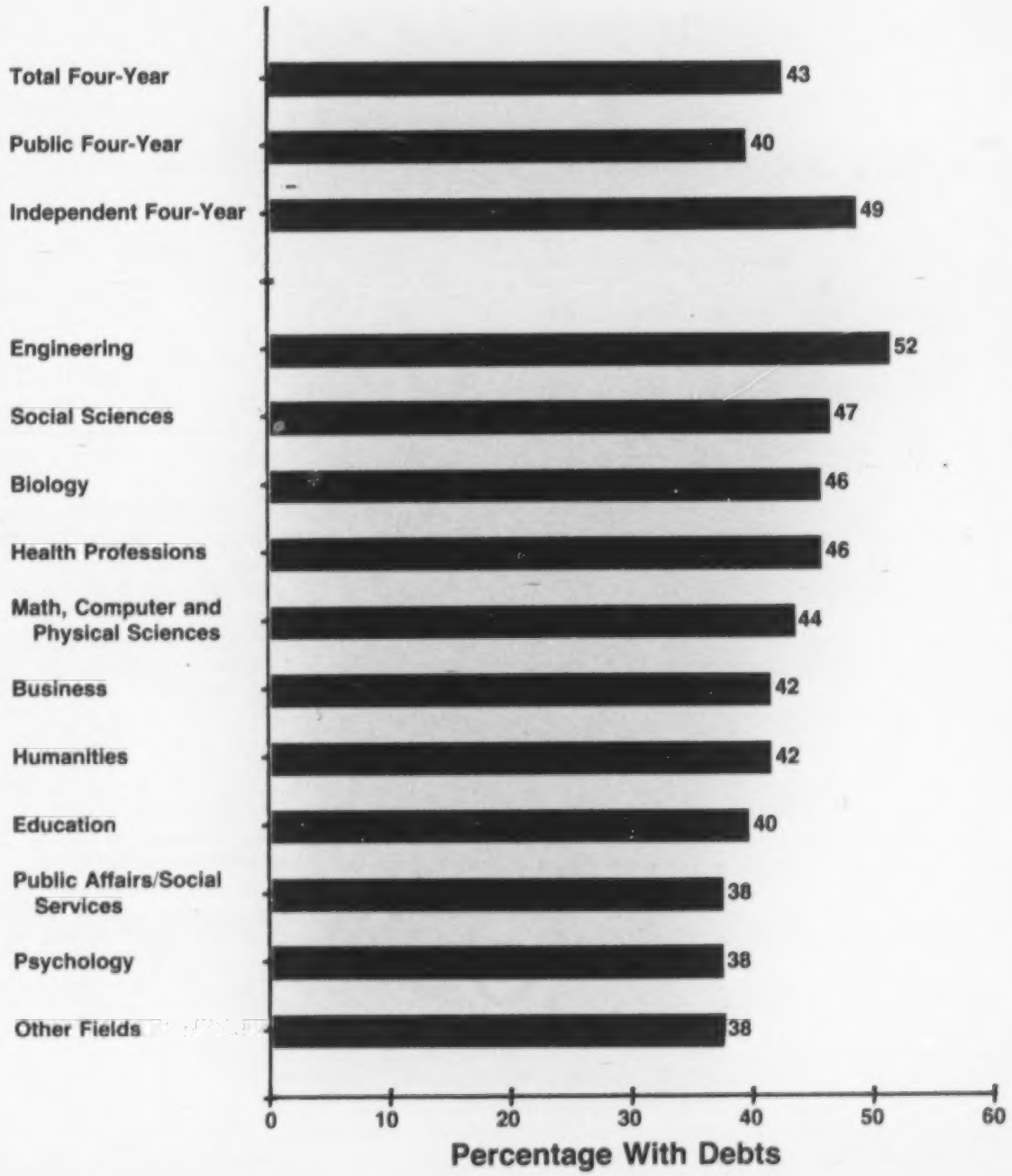
The Center for Education Statistics conducted the Recent College Graduates Surveys in 1976, 1978, 1981 and 1985. (The 1987 survey is currently underway: results are expected by April 1988.) Survey participants are college graduates who had received their degrees one year earlier. The 1985 survey queried more than 18,000 1983-84 college graduates from more than 400 four-year colleges and universities. Approximately 16,000 of the students sampled had earned bachelor's degrees and 2,000 had received master's degrees. All data came from the students themselves; the overall response rate was 78 percent. Responses were weighted to national estimates of those people who had received bachelor's or master's degrees between July 1, 1983 and June 30, 1984. This report's analysis is limited to baccalaureate recipients.[1] No proprietary institutions were included in the survey.

The survey question most pertinent to this study was: "When you received [your] degree, did you have any debt that was *directly* related to your education (tuition and fees, room and board, books and supplies, and transportation to and from school)?"[2] For those students who had borrowed, there was an open-ended question to record the amount owed.

This analysis examines the cumulative debt in-

(This study reports the college debts of 1983-84 graduates of four-year institutions only. The sample did not include students who enrolled at proprietary institutions, or those who enrolled at two- and four-year institutions but did not graduate from a four-year institution. Also, students who completed graduate study were not included in the report. Thus, these results do not reflect the college debts of all students.)

Figure 1. PERCENTAGE OF 1983–84 COLLEGE GRADUATES WITH DEBTS



Source: American Council on Education, 1987. Tabulations are based on the "1985 Recent College Graduates Survey," U.S. Department of Education, Center for Education Statistics.

curred by college graduates, not the source of the loans. (The Appendix describes sources of loans.) The survey also collected salary and employment data from each graduate. These salaries reflect earnings roughly one year after graduation. Answers to the debt, employment, and salary questions were analyzed to determine differences in borrowing patterns and in the ability of recent graduates to repay these debts.

This report is divided into two sections. A review of the findings is followed by a discussion of their implications.

Survey Findings

Graduates Facing Debts

More than 400,000 1983-84 graduates from four-year institutions completed college with debts. This represents 43 percent of all graduates from four-year institutions. Table 1 and Figure 1 show that the percentages of graduates with debts at public and independent institutions were 40 percent and 49 percent, respectively. Women were almost as likely as men to borrow (41 percent compared to 45 percent). This tendency prevailed for women graduating from public as well as independent colleges.

There were a few differences by race/ethnicity. Black and Asian-Pacific Islander graduates from the public sector were slightly less likely to borrow and have debts than white or Hispanic graduates of public institutions. Hispanic graduates of four-year independent institutions had incurred debts more frequently than other graduates in the independent sector.[3]

Borrowing money for college also differed by field of study. Graduates in engineering were more likely to borrow than graduates in other programs. Students majoring in public affairs, social services, and psychology were less likely to incur debts.

In general, students graduating from independent colleges were the most likely to borrow. This finding held true by gender, race/ethnicity, and major fields.

TABLE 1

Percentage of 1983-84 College Graduates with Debts by Gender, Race/Ethnicity, and Field of Study

	Total Four-Year Institutions	Public Four-Year Institutions	Independent Four-Year Institutions
Total	43%	40%	49%
Men	45%	42%	51%
Women	41	38	46
White	43%	41%	48%
Black	40	35	50
Hispanic	45	41	56
Asian-Pacific Islander	40	33	47
Engineering	52%	48%	62%
Social Sciences	47	44	53
Biology	46	38	58
Health Professions	46	44	48
Math, Computer and Physical Sciences	44	40	50
Business	42	39	47
Humanities	42	41	44
Education	40	39	46
Public Affairs/Social Services	38	35	47
Psychology	38	34	44
Other Fields	38	37	41
(N)	411,205	261,222	149,983

Source: American Council on Education, 1987. Tabulations are based on the "1985 Recent College Graduates Survey," U.S. Department of Education, Center for Education Statistics.

TABLE 2

Average Cumulative Debts Facing 1983-84 College Graduates in Debt

	Total Four-Year Institutions	Public Four-Year Institutions	Independent Four-Year Institutions
All Students	$5,470	$4,970[1]	$6,350[1]
White	$5,570[2]	$5,070[3]	$6,460[3]
Black	$4,600[2]	$3,830[3]	$5,490
Fields of Study	$5,000-$6,400	$4,500-$6,300	$5,500-$7,800

Note: [1] [2] [3] Numbers with the same superscript indicate a statistically significant difference ($p < .05$). Figures in this table have been rounded to the nearest $10.

Source: American Council on Education, 1987. Tabulations are based on the "1985 Recent College Graduates Survey," U.S. Department of Education, Center for Education Statistics.

Of those who borrowed, the average college debt among 1983-84 graduates of four-year institutions was $5,470. This was twice the average debt among 1976-77 graduates of four-year institutions.

Averages, however, should be interpreted with caution. For example, among graduates who borrowed, one in three owed less than $3,000; 34 percent owed $7,000 or more; 2 percent owed $15,000 or more.

TABLE 3

Average Debts Among 1983-84 College Graduates in Debt, by Selected Major Fields

Major	Public Four-Year Institutions	Independent Four-Year Institutions
Business	$4,700	$6,000
Education	$4,620	$6,110
Engineering	$5,240	$7,760
Humanities	$4,560	$6,140
Math, Computer and Physical Sciences	$4,850	$6,070
Social Sciences	$5,120	$6,970

Source: American Council on Education, 1987. Tabulations are based on the "1985 Recent College Graduates Survey," U.S. Department of Education, Center for Education Statistics.

Size of Debts

The mean debt among all 1983-84 graduates who had borrowed was $5,470, with debts averaging $4,970 at public institutions and $6,350 at independent campuses (see Table 2). There were no differences between men and women in the size of debts incurred. Overall, graduates from independent institutions incurred higher debts than their peers who finished in the public sector: this was true for both men and women. Blacks, in general, borrowed less than whites.

Across major fields of study, small differences appeared in the average debts incurred but were not statistically significant. However, in six major fields, graduates of independent institutions borrowed more than graduates of public institutions. For example, the average cumulative debt of humanities graduates of independent institutions was about $6,140, compared to $4,560 for graduates of public institutions (see Table 3).

Most analyses on trends in borrowing have focused on average cumulative loans. The popular press shocks its readers and viewers with reports about the plight of college graduates facing debts of $15,000, which in some cases may exceed their present yearly incomes. How representative are these cases? Table 4 and Figure 2 show that few graduates had very large educational debts in 1983-84. Only 2 percent were facing loans of $15,000 or more after graduation. The distribution of loans could be divided approximately into thirds with roughly equal groups owing

- Less than $3,000,
- $3,000 - $6,999, and
- $7,000 and above.

The distribution of debts into these three groups did not vary significantly by gender but black and Hispanic graduates had borrowed slightly less amounts than white graduates.

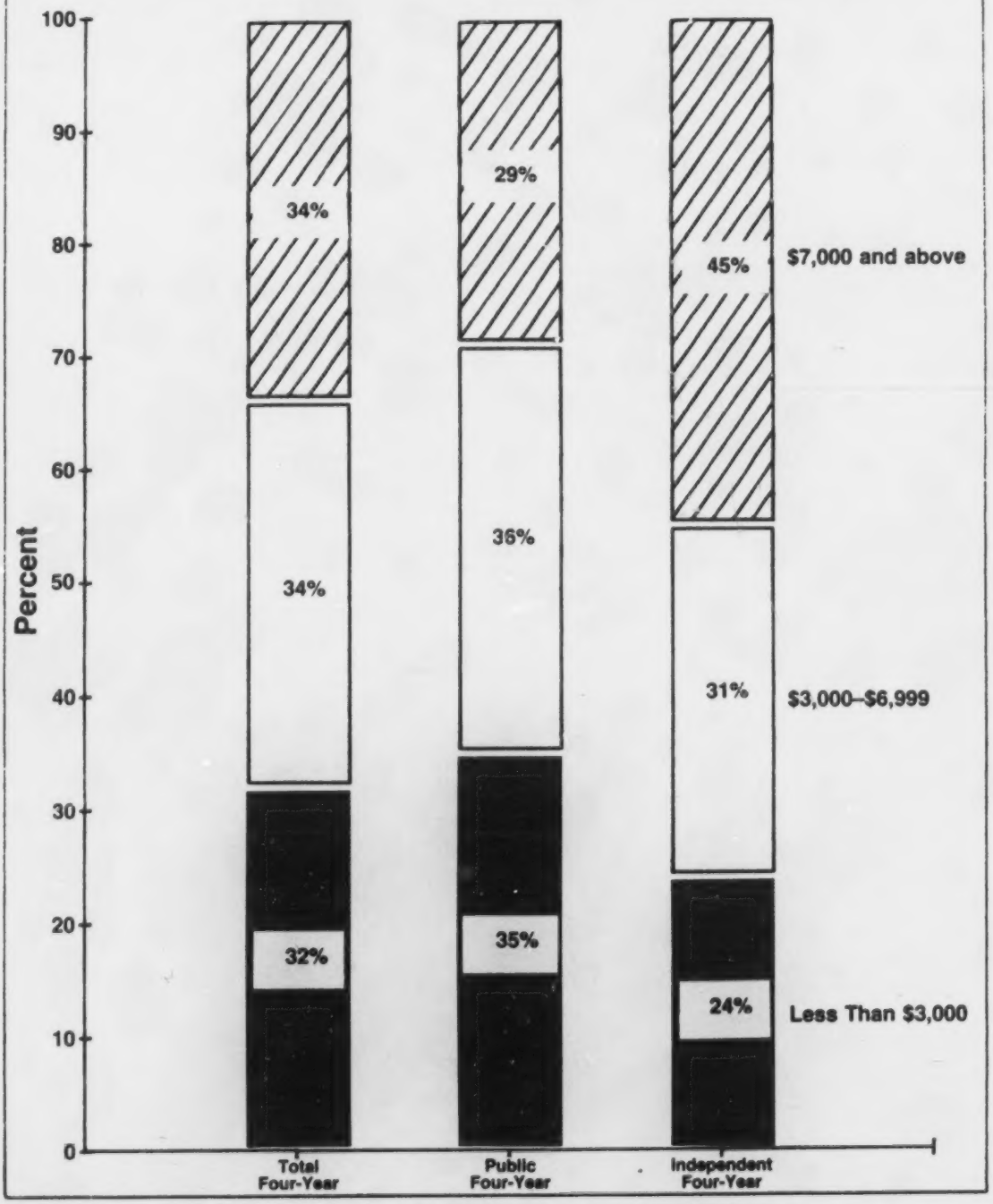
For students graduating from public institutions this split generally described their debts. Students graduating from independent institutions, however, were more likely to owe at least $7,000. For example, 28 percent of the graduates of independent institutions had educational debts of $9,000 or more; in contrast, 16 percent of the graduates of public institutions faced similar debts.

TABLE 4
Distribution of Debts Owed by 1983–84 College Graduates in Debt

		Control of Institution		Race/Ethnicity			Gender	
Level of Debt	Total Four-Year Institutions	Public Four-Year Institutions	Independent Four-Year Institutions	White	Black	Hispanic	Men	Women
Less than $1,000	8%	9%	5%					
$1,000–$1,999	9	10	6					
$2,000–$2,999	15	16	13					
Less than $3,000 subtotal	**32%**	**35%**	**24%**	**31%**	**44%**	**39%**	**32%**	**32%**
$3,000–$4,999	14	15	12					
$5,000–$6,999	20	21	19					
$3,000–$6,999 subtotal	**34%**	**36%**	**31%**	**34%**	**31%**	**32%**	**33%**	**35%**
$7,000–$8,999	15	13	17					
$9,000–$10,999	12	10	17					
$11,000–$12,999	3	3	5					
$13,000–$14,999	2	} 3	} 6					
$15,000 and above	2							
$7,000 and above subtotal	**34%**	**29%**	**45%**	**35%**	**25%**	**29%**	**36%**	**33%**
Grand Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: American Council on Education, 1987. Tabulations are based on the "1985 Recent College Graduates Survey," U.S. Department of Education, Center for Education Statistics.

Figure 2. LEVEL OF DEBTS OWED BY 1983–84 COLLEGE GRADUATES IN DEBT



Source: American Council on Education, 1987. Tabulations based on the "1985 Recent College Graduates Survey," U.S. Department of Education, Center for Education Statistics.

Employment Status

One year after graduation, most graduates (with or without debts) were working. Nearly two-thirds of those with debts were employed full-time and were not enrolled at another postsecondary institution (see Table 5). Another 8 percent were enrolled for additional study and working full-time.

Mean debts of each of the groups listed in Table 5 were analyzed to see if there were significant differences in the size of the debts incurred. No significant differences were found; therefore, the discussion of debts in this paper pertains to the entire group of college graduates with debts, regardless of their employment or enrollment status one year after graduation.

Variations in Salaries

Annual starting salaries in 1985 averaged $18,200 among graduates employed full-time (see Table 6). Except for business majors, there were essentially no differences in the average salaries received by graduates who had borrowed while in college and those who had not. Debt-free business majors typically were earning more ($20,000) than business majors with debts to repay ($18,000). There were, however, differences in salaries received by men and women, regardless of whether they had debts to repay or whether they had finished at public or independent institutions. For example, men were earning about $20,000, while women were earning about $16,300.

Salaries for men and women did not vary significantly according to whether the graduates had completed their degrees at public or independent campuses. Likewise, there were no real differences in salaries by race/ethnicity of the graduates.

TABLE 5

Employment and Enrollment Status of 1983-84 College Graduates With Debts in the Spring of 1985

Status	Percent
Employed	
Full-time and not enrolled	66%
Full-time and enrolled	8
Part-time and not enrolled	6
Part-time and enrolled	6
Unemployed (unable to find work)*	4
Not in labor force (not seeking work) and enrolled	8
Not in labor force (not seeking work) and not enrolled	2
Total	100%
N = 411,205	

* The large majority of these graduates also are not enrolled. Less than 1 percent of all graduates were unemployed and enrolled.

Source: American Council on Education, 1987. Tabulations are based on the "1985 Recent College Graduates Survey," U.S. Department of Education, Center for Education Statistics.

TABLE 6

Average Salaries of 1983-84 Graduates Who Were Employed Full-time in 1985

	Mean Salaries[1]
Total	$18,200
Men	$20,000
Women	$16,300
Engineering	$25,000
Health Professions, Mathematics, Computer and Physical Sciences	$20,000 - $22,000
Business Management	$18,000 - $21,000
Biology, Social Sciences, Humanities, Psychology, Education, Public Affairs, and other majors	$14,000 - $17,000

[1]There are few significant differences at the .05 level among majors. Therefore, some salary data have been grouped to minimize artificial rankings.

Source: American Council on Education, 1987. Tabulations are based on the "1985 Recent College Graduates Survey," U.S. Department of Education, Center for Education Statistics.

TABLE 7

Growth in Cumulative Debts and College Costs

	1977 Graduates		1984 Graduates		Percent Change	
	Public	Independent	Public	Independent	Public	Independent
Average Cumulative Debts	$ 2,348[1]	$ 3,114[1]	$ 4,970	$ 6,350	112%	104%
Average College Costs for Four Years[2]	$10,500	$17,900	$17,100	$32,500	63%	82%
Debts As Percent of Costs	22%	17%	29%	20%		

[1]It is unclear whether cumulative undergraduate debt for some masters' recipients was included in these 1976–77 tabulations. If so, then the average cumulative debt figures used may be slightly underestimated.

[2]This includes a comprehensive budget of tuition, fees, room, board, books, supplies, transportation, and personal expenses.

Sources: American Council on Education; Education Policy Research Institute; and the U.S. Department of Education.

Discussion

Growth in Borrowing

This study found that 43 percent of the 1983-84 graduates were leaving college in debt. About a third of 1976-77 graduates were similarly in debt, according to analysis by Wabnick and Goggin of an earlier Recent College Graduate survey.[4]

Not only has the tendency to borrow escalated, but average cumulative debts have risen as well, from an average of $2,700 in 1976-77 to $5,470 by 1983-84 (in current dollars). Average debts of public-sector graduates in 1976-77 were lower ($2,350) than those of independent-sector graduates ($3,100); results from the 1985 survey were consistent with this pattern.

The growth in average cumulative debts between 1976-77 and 1983-84 outpaced average college costs (see Table 7). For example, average college costs for 1984 graduates of public institutions were 63 percent higher than the average costs for 1977 graduates. Average cumulative debts, however, increased 112 percent at public institutions.

It cannot be concluded that rising college costs alone drove up average student debts during this era. Average debts as a percentage of average college costs rose for students at both public (from 22 to 29 percent) and independent institutions (from 17 to 20 percent). In large part, this is because the growth in other federal student aid programs did not keep pace with the growth in college costs during the period 1977-84.

The Middle Income Student Assistance Act (MISAA) of 1978 liberalized borrowing under the Guaranteed Student Loan program. Under MISAA, no family income requirement or needs test was necessary to qualify for a GSL. Between FY 76 and FY 81, the number of GSL loans awarded rose from 1.3 million to 3.5 million, while federal GSL payments climbed from $520 million to $2.6 billion.[5] Obviously the law had contributed not only to the rising program costs but also to the number of students who were borrowing. In 1981 the Omnibus Budget Reconciliation legislation specified a needs test for any student with a family income over $30,000.

Outlook for the Future

The Higher Education Amendments of 1986 further restrict GSL borrowers because all applicants must undergo a needs test. The 1986 restrictions, advocated to reduce federal loan subsidies, will probably slow the growth rate in the percentage of graduates leaving college with debts.

Average college costs for 1984 graduates of public institutions were 63 percent higher than the average costs for 1977 graduates. Average cumulative debts, however, increased 112 percent at public institutions.

TABLE 8

Average Debt Repayments in 1978, 1985 and 1992

	1977 Graduate	1984 Graduate	(Projections) 1991 Graduate
Average cumulative debt of graduates	$2,700	$5,470	$11,360
Average earnings for graduates employed full-time one year after graduation	$11,500	$18,200	$25,600
Percent of pre-tax earnings used for repayment during first year[1]	3%	4%	6%

[1]This assumes a 10-year repayment period at 7 percent interest. The 1991 projections assumed average loans to grow about 11 percent per year and average recent graduate earnings to grow about 5 percent annually.

Sources: American Council on Education; Education Policy Research Institute; and the U. S. Department of Education.

TABLE 9

Distribution of 1983–84 Graduates With Debts by Size of Loan Burden

First Year Repayment As Percent of Pre-Tax Earnings	Total Four-Year Institutions	Public Four-Year Institutions	Independent Four-Year Institutions	Gender		Selected Fields of Study		
				Men	Women	Business	Education	Humanities
Less than 3%	39%	43%	33%	43%	36%	41%	36%	34%
3%–5.9%	28	29	27	28	28	28	26	24
6%–9.9%	23	21	28	23	23	23	24	28
10%–12.9%	5	4	6	3	7	8	14	14
13%–13.9%	2	3	6	3	6			
14.0%–and above	3							
Total	100	100	100	100	100	100	100	100
(N)	302,646	195,408	107,238	158,203	144,443	79,777	29,570	22,550

Note: These figures have been rounded. A 10-year repayment period at 7% interest is assumed. These figures apply to graduates who were in debt and employed full-time in the spring of 1985.

Source: American Council on Education, 1987. Tabulations are based on the "1985 Recent College Graduates Survey," U.S. Department of Education, Center for Education Statistics.

One in seven recent graduates in education and in the humanities who borrowed faced a loan burden of 10 percent or more of their pre-tax earnings.

Ability To Repay Debts

In 1985 a graduate who was employed full-time and earning $18,200 per year was paying about 4 percent of his or her pre-tax earnings during the first year of repayment on an average debt of $5,470 (see Table 8). (This assumes a ten year repayment period at 7 percent interest).[6] An example from the earlier study by Wabnick and Goggin produces similar results. Repayment of average college debts in 1978 took about 3 percent of pre-tax earnings. If one assumes that cumulative debts will grow at about the same rate between 1985 and 1992, as they did between 1978 and 1985, and that salaries will grow more slowly, then by 1992, college graduates will be applying about 6 percent of their first-year pre-tax earnings toward the repayment of their college debts.[7] Higher or lower interest rates would change the level of annual payments.

Economists disagree on what may constitute extreme hardship, but many believe that debt payments ranging from 3 - 15 percent of pre-tax earnings are reasonable.[8] Some graduates may still face some hardship, however. Wabnick and Goggin concluded in 1978 that there were "pockets" of loan burden among some subpopulations, such as those 1976-77 graduates who were unemployed or working part-time. They further noted that women generally faced more difficulty because their lower salaries, on average, made repayment harder.

Table 9 and Figure 3 describe the distribution of debt service for the 1983-84 graduates leaving with debts. It appears that nine out of ten graduates who were employed full-time faced a loan burden of less than 10 percent of their pre-tax earnings during their first year of repayment.[9] On average, these graduates should be able to repay their debts in a timely manner. However, those facing payments of 10 percent or more of their pre-tax earnings might have had trouble meeting and keeping up those payments. One in seven graduates in education and in the humanities who borrowed faced such a repayment in this study. A similar proportion of women graduates faced this same repayment burden.

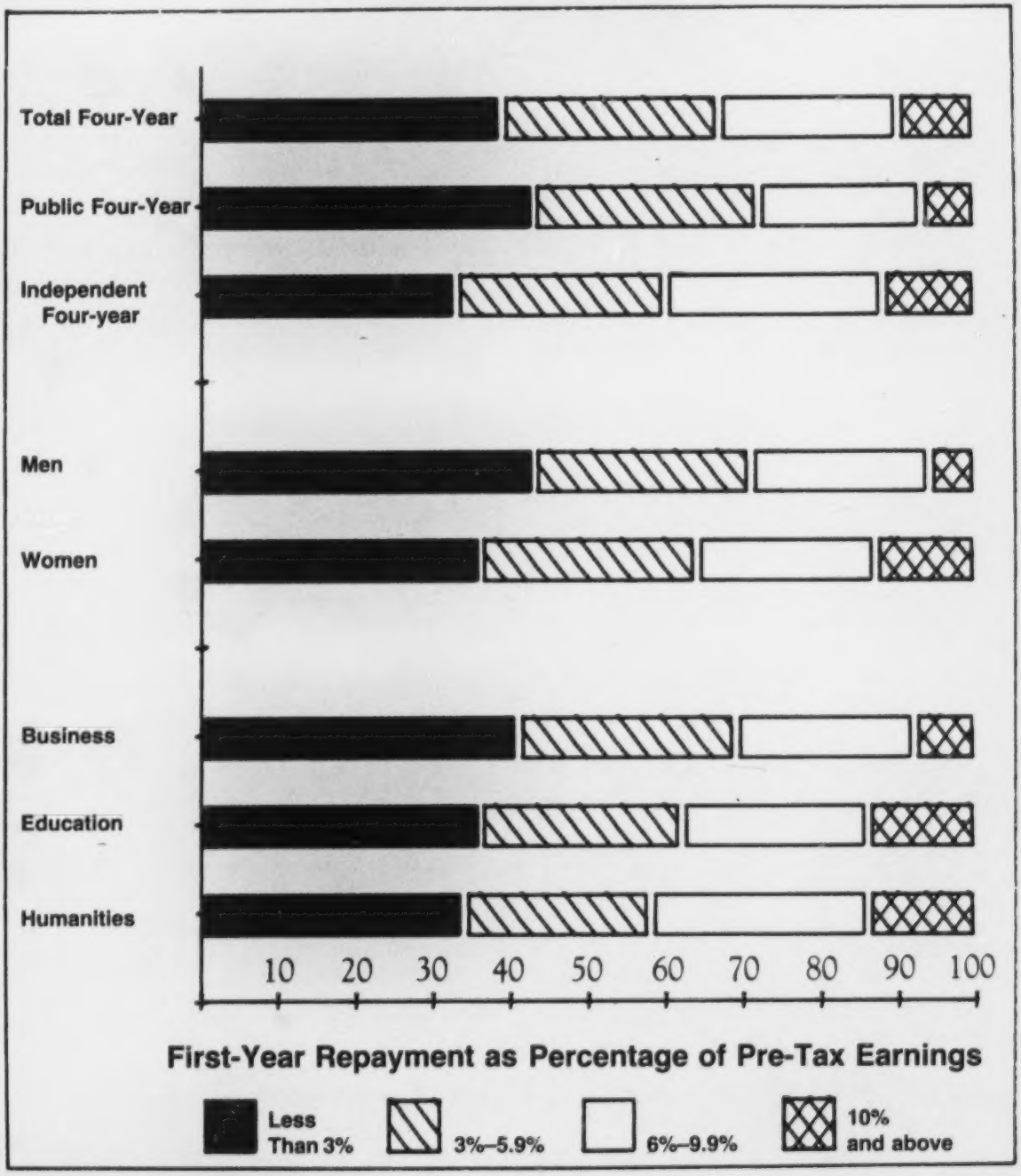
This study corroborates Wabnick and Goggin's conclusions that there may be "pockets" of loan burden, particularly for some women and persons majoring in education or the humanities. Their average college debts are not significantly greater than those of other graduates, but their burden of repayment is greater because, on average, their salaries are lower.

About one-third of 1983–84 graduates who were employed full-time were paying 6 percent or more of their earnings toward their education loans.

The average college debt for 1986–87 graduates of four-year institutions is estimated at $7,480.

By 1992, recent graduates might expect to pay about 6 percent of their first-year pre-tax earnings on an average debt of $11,360.

Figure 3. DISTRIBUTION OF 1983–84 GRADUATES WITH DEBTS BY SIZE OF LOAN BURDEN



Note: See Table 9 footnotes.
Source: American Council on Education, 1987. Tabulations based on the "1985 Recent College Graduates Survey," U.S. Department of Education, Center for Education Statistics.

Additional Policy Issues

Boyd and Martin found that average loans have not caused borrowers to postpone decisions to purchase cars, to take out home mortgages, or to start a family.[10] Most undergraduates, however, assume that they will finish college, find a well-paying full-time job, and enjoy a rising income. Many students never graduate, some may face several years of underemployment after graduation, and some may choose satisfying but lower-paying occupations. Table 5 shows that although the majority of graduates with debts are employed full-time one year after graduating from college, there are some who are unemployed and not enrolled for further education. At the time that they take out loans, borrowers cannot possibly know the real burden that they will face.

Loans are clearly a mixed blessing for consumers who invest in education, for the federal government which helps to underwrite it, and for the educational institutions which provide it. For consumers, the availability of loans has improved access and broadened choices for millions of students who otherwise might not have ever entered or finished college; nevertheless, once they leave college, some of these students may find repayments quite difficult.

The federal government responded to the pressure from middle-income taxpayers to provide a program to help them finance their children's college educations. However, federal GSL subsidies are escalating far beyond what legislators envisioned even a decade ago. Currently interest rates are low; federal subsidies are averaging $3 billion per year. However, many analysts expect interest rates to rise rapidly in the near future. For every 1 percent increase in interest rates, federal subsidies will rise $400 million per year. For example, a jump of 2 percent in Treasury bill interest rates would cause annual GSL subsidies to rise from about $3 billion to about $4 billion.

At the institutional level, enrollments have remained surprisingly stable during a period analysts forecasted would be marked by declining enrollments and college closings. Clearly the expanded participation in the GSL program shows that larger numbers of undergraduates are using this program to get started, to stay enrolled, and to graduate from college. Undoubtedly, enrollments would have fallen without the widespread use of GSL loans. (The increase in the enrollments of older students also has helped to offset the decline in the number of recent high school graduates.)

This reliance on loans has another implication for many young people who would like to further their education. How many minority and/or low-income individuals have heard about the growing tendency to borrow (as well as the growing average debt incurred) and been too discouraged to enroll? Have spiraling federal loan subsidies squeezed out real growth in the primary federal need-based grant program? Grants have helped to improve access, choice, and persistence for many. Both grants and loans enjoy popular support. In a December 1986 survey of public attitudes toward higher education, more than half of the public strongly endorsed both grants to low-income students (55 percent) and low-interest loans to middle-income students (54 percent).[11]

The availability of loans may mean the difference between continuing and dropping out for some middle-income students, but borrowing could discourage many low-income students from remaining in college. In FY 83, almost 40 percent of GSL borrowers were from families with incomes of *below* $15,000.[12]

When policymakers debated the necessity of including needs tests for the GSL program as part of the Higher Education Amendments of 1986, they focused more on how to save federal expenditures than on how to stem the rising proportion of students who were graduating in debt. Just because most graduates are able to repay their loans does not mean that uncontrolled growth in the loan programs is a desirable federal policy. Within the last decade, the use of loans has risen sharply; one-third of graduates were in debt in the 1970s and now that figure is approaching one-half. Is it acceptable public policy to have it rise to two-thirds or three-quarters?

Thus far, most default cases have involved students who borrowed while attending a proprietary school or community college and who later were unable to find adequate employment to enable them to repay their loans. Borrowers are no longer

a small subset of the postsecondary student population. They are independent and dependent students from varying economic backgrounds who are using loans to help finance their educations. If the proportion of students who borrow continues to rise, it could include a larger number of borrowers who will have difficulty repaying because of unemployment or underemployment.

Conclusion

U.S. Department of Education officials are concerned about measuring the outcomes of a college education. For at least 43 percent of recent college graduates, one outcome is debt. If the trends found in several of the Recent College Graduates surveys continue, estimated average debts for 1987 graduates are:

- $7,480 (all institutions)
- $6,800 (public institutions)
- $8,680 (independent institutions)

This study found that most recent graduates who are employed full-time are able to repay their debts. However, federal programs might be considered to provide options for the 10 percent of graduates who may face difficulty in repaying their debts on schedule.

If the trends found in several of the Recent College Graduates surveys continue, estimated average debts for 1987 graduates are:

- **$7,480 (all institutions)**
- **$6,800 (public institutions)**
- **$8,680 (independent institutions)**

Notes

[1]Students were included in this analysis if their debts were greater than or equal to $50 and less than or equal to $74,499 and if their salaries were greater than or equal to $1 and less than or equal to $999,998.

[2]1985 Survey of 1983-84 College Graduates questionnaire.

[3]The concentration of all Hispanic postsecondary enrollment, however, is in the public two-year sector. Therefore, data on Hispanic students in this report are valid when applied to students who completed their degrees from four-year colleges and universities and should not be considered representative of all enrolled Hispanics.

[4]Richard Wabnick and William Goggin, *Indebtedness to Finance Postsecondary Education* (Washington, D.C.: Education Policy Research Institute, 1981), p. B-2.

[5]The FY 76 data covers a 15-month period, including a transitional quarter. U. S. Department of Education, Office of Student Financial Assistance, *The Program Book: A Summary of 1984-85 Program Statistics* (Washington, D.C.: U.S. Government Printing Office, 1986), p. III-37.

[6]Table A-1 shows that the GSL program was the most popular loan program used by students; it was used by twice as many students as the next most frequent loan program, the NDSL. At the time that this cohort of students was enrolled (roughly 1979-80 through 1983-84), interest rates for NDSL and GSL programs were 5 percent and 7 - 9 percent, respectively. Students who had borrowed from family members, from banks, or from other sources may have paid higher or lower rates than these. The 7 percent interest was chosen to illustrate an average that might have been paid.

[7]Earnings of recent college graduates grew on average about 7 percent annually between 1978 and 1985. However, the Congressional Budget Office projects that earnings will grow more slowly (perhaps 5 percent annually) in the near future.

[8]Janet Hansen, *Student Loans: Are They Overburdening A Generation?* (New York: The College Board, 1987), p. 16.

[9]The first year in repayment is typically the worst case scenario.

[10]According to the Mortage Bankers Association of America, in 1985 a person earning $18,200 with educational debts equal to about 4 percent of pretax earnings would have qualified for about a $35,000 conventional mortage. Joseph D. Boyd and Dennis J. Martin, *The Characteristics of GSL Borrowers And The Impact of Educational Debt* (Washington, D.C.: National Association of Student Financial Aid Administrators, 1985).

[11]Jean Evangelauf, "Poll Finds Sharp Rise in Support for U.S. Funds for College Students," *The Chronicle of Higher Education*, Vol. XXXIII, No. 19, (January 21, 1987), p. 25.

[12]Hansen, p. 11.

Recommended Additional Reading

Boyd, Joseph D. and Dennis J. Martin. *The Characteristics of GSL Borrowers And The Impact of Educational Debt* (Washington, D.C.: National Association of Student Financial Aid Administrators, 1985).

Change Magazine, May-June 1986 issue. Articles by Martin A. Kramer and William D. Van Dusen, Janet Hansen, Michael McPherson, and Michael O'Keefe.

Hansen, Janet. *Student Loans: Are They Overburdening A Generation?* (The College Board: New York, 1987).

Hansen, W. Lee and Marilyn S. Rhodes. "Manageability of Student Debt: Before and After Reauthorization." Paper presented at NASSGP/NCHELP Student Financial Aid Research Network Conference, Washington University, St. Louis, Missouri, June 3, 1987, mimeographed.

Hansen, W. Lee and Marilyn S. Rhodes. "Student Debt Crisis: Are Students Incurring Excessive Debt?" Paper presented at a conference under the auspices of the National Institute of Education, October, 1985, mimeographed.

Kirschner, Alan H. and Julianne Still Thrift. *Access to College: The Impact of Federal Aid Policies At Private Historically Black Colleges* (New York and Washington, D.C.: The National Institute of Independent Colleges and Universities and The United Negro College Fund, Inc., 1987).

Korb, Roslyn A., *Occupational and Educational Consequences of a Baccalaureate Degree* (Washington, D.C.: U.S. Government Printing Office, 1987).

Appendix

As part of the 1985 Recent College Graduates survey, students were asked what forms of financial aid had been received during the last year enrolled. In addition to questions specifying federal, state, institutional, and private grants and scholarship programs, several types of loans were identified, including National Direct Student Loans (NDSL), Guaranteed Student Loans (GSL), Bilingual Education Loans, college loans, state loans, regular bank loans, loans from relatives and friends, and other loans. Table A-1 and Figure A-1 provide detailed data on the sources of the loans. In general, Guaranteed Student Loans were used almost twice as often as were NDSLs. (Additional research to describe the widespread use of loans especially from relatives and friends would be valuable).

TABLE A-1

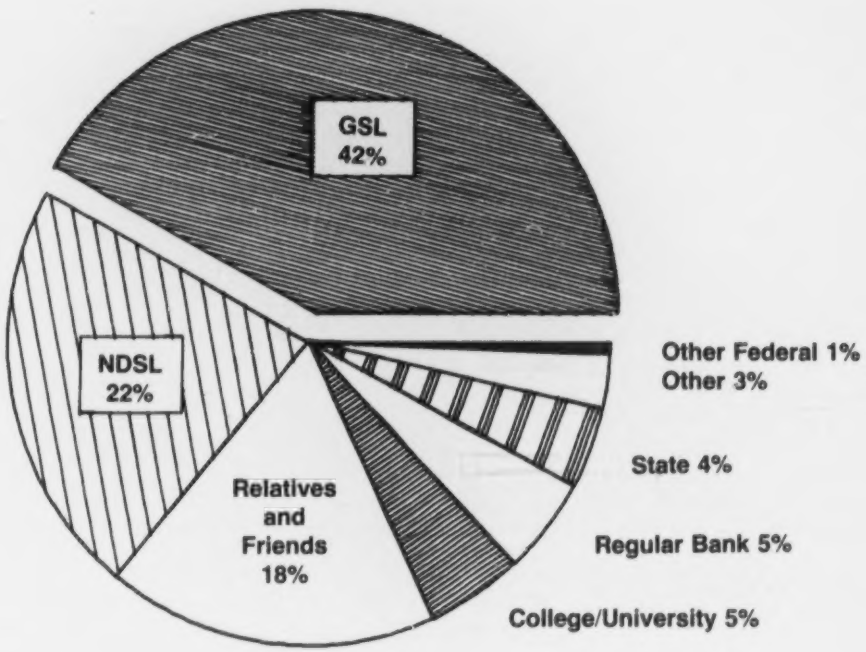
Source of Loans Used by 1983–84 College Graduates With Debts

Field of Study	Total[1]	Source of the Loans								
		GSL	NDSL	Relatives/ Friends	College/ Univ.	Regular Bank	State	Other	Other Federal	Bilingual
Total Loans[1]	706,140	295,598	156,255	125,790	36,685	36,460	30,385	20,551	4,122	294
Business	149,522	61,843	37,607	23,995	5,169	9,306	6,223	4,552	827	0
Education	75,790	29,668	17,654	14,278	3,307	5,728	3,225	1,433	445	52
Engineering	73,362	32,038	12,296	15,086	4,814	2,491	3,500	2,881	128	128
Health Professions	48,520	17,426	9,669	7,928	5,315	2,448	2,220	2,288	1,112	114
Public Affairs/ Social Services	21,577	7,438	3,895	5,096	1,378	1,738	1,085	807	140	0
Biology	36,760	16,869	7,632	6,881	1,822	1,043	1,440	772	301	0
Math, Computer and Physical Sciences	54,864	24,146	11,172	10,868	2,533	2,424	2,570	999	152	0
Social Sciences	71,016	32,633	16,125	10,802	2,937	2,525	3,262	2,108	624	0
Humanities	61,250	24,805	14,420	11,135	3,291	2,781	2,761	1,940	117	0
Psychology	32,227	14,316	8,220	5,296	1,295	1,851	693	416	140	0
Other Fields	81,252	34,416	17,565	14,425	4,824	4,125	3,406	2,355	136	0

[1]This table shows the number of loans, not the number of persons who borrowed.

Source: U.S. Department of Education, Center for Education Statistics, 1986 tabulations.

Figure A-1 SOURCE OF LOANS USED BY 1983–84 COLLEGE GRADUATES WITH DEBTS



Note: Percentages are based on the number of loans, not persons. Loans from Bilingual programs totaled less than 1%.
Source: U.S. Department of Education, Center for Education Statistics, "1985 Recent College Graduates Survey," 1986.

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